

Assumptions, Estimates, & Trends

Overview

Funding for services provided to Gallatin County residents come from a variety of sources. The County strives to maintain a diversified and stable revenue system that will provide shelter from short-term fluctuations in any one revenue source and ensure the ability to provide ongoing services, within the confines of Montana Law. Gallatin County is heavily reliant upon property tax levy for its general fund, public safety and road / bridge revenue, which is explained in greater detail on the following pages. The County will continue its policy of seeking alternative revenue sources to lower the tax burden for County services, charging users for specific services where feasible, and aggressively collecting all revenues due the county. Enterprise fund revenues are generated through direct fees for service. Total estimated (budgeted) revenue, regardless of the source, amounts to \$58,174,052 for FY 2007.

County revenues are divided into eight basic categories: Taxes and Assessments; Licenses and Permits; Intergovernmental Revenue; Charges for Services; Fines and Forfeitures; Miscellaneous Revenue; Investment Earnings; and Inter-fund Transfers.

Taxes and Assessments: This revenue is comprised of Taxes -derived from the levy of taxes on real property and personal tangible property and Assessments – derived from charges within districts either based on value or a unit. Examples of taxes are property taxes – Assessments examples are Rural Improvement District (RID) Maintenance fees and Fire Service Area Fees.

Licenses and Permits: Revenues derived from the issuance of local licenses and permits. The county has very few licenses and permits.

Intergovernmental Revenue: Revenues received from federal, state and other local government sources in the form of grants, shared revenues, and payments in lieu of taxes. State entitlement, grants, and PILT are examples of Intergovernmental Revenue.

Charges for Services: All revenues stemming from charges for current services—primarily revenues of Enterprise and Internal Service Funds. Examples of charges for services are solid waste disposal fees, rest and charges collected by Clerk & Recorder, Planning and Zoning areas.

Fines and Forfeitures: Revenues received from fines and penalties imposed for the commission of statutory offenses, violation of lawful administrative rules and regulations, and for neglect of official duty. Examples include: court fines, wedding fees, victim witness fines and bonds forfeited.

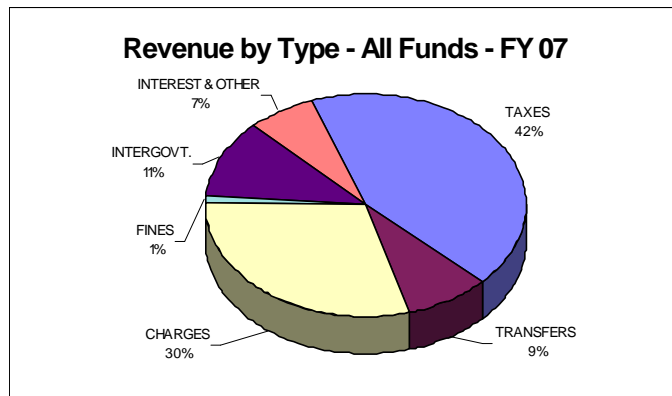
Miscellaneous Revenue: Revenue from sources not otherwise provided in other categories. Rents and impact fees are examples of miscellaneous revenues.

Investment Earnings: Revenue derived from the investment of available cash balances.

Interfund Transfers: Transfers between individual funds of a governmental unit that are not repayable and are not considered charges for goods or services. An example is matching funds transferred from public safety to Drug Task Force for grant match and administrative costs.

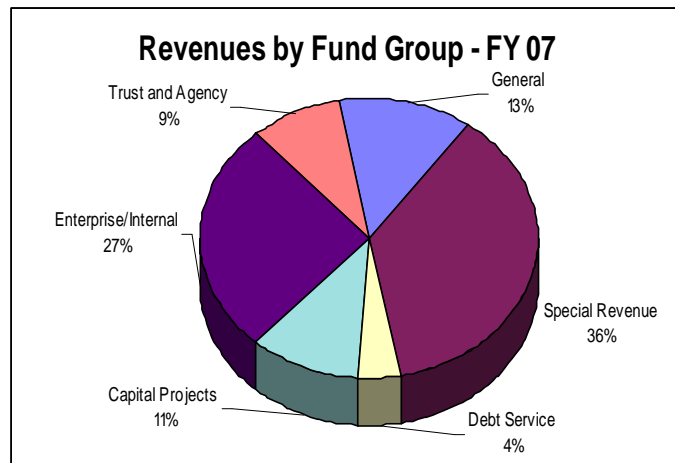
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Shown by the graphs below are two pie charts giving graphic overview of total county revenues—one by the sources previously described and the other by major fund group.



As depicted by the graph of revenues by type, taxes and assessments and charges for services are the two largest categories of county revenues for FY 07 (72% vs. 62% for FY 06). Intergovernmental make up the next largest at 11% (compared to 12% for FY 06). Finally, transfers in account for 9% of all revenues. These four categories constitute 92% of county revenues for FY 07.

Revenues by fund also help give the reader a look at the “Big Picture” of county revenues. As shown by the graph on the right, the general fund (11%), Enterprise & Internal Service funds (25%), Special Revenue Funds (36%), and Capital Projects (15%), make up 87% of the County’s Revenues



Revenue Forecast Assumptions & Methodology

Forecasting as used in the budget refers to estimating the future changes in revenues. It provides an estimate of how much revenue will be available and the resources required to meet current service levels and programs over the forecast period. The value of forecasts is in estimating whether, given assumptions about local financial policies and economic trends, the County will have sufficient resources to meet the resource requirements of ongoing, planned, or mandated programs. Forecast models have the added value of providing a planning tool for capital projects and/or whether bonded indebtedness will be required for capital funding. In short, forecasting provides an estimate of the financial flexibility of the County, as well as insight into tax, revenue, and service options the Commission must address. Our forecasting methodology reflects a combination of internal analysis and locally generated consensus forecasts covering such factors as population growth, revenue trends, and inflation. Specifically, for the revenue forecasts, we begin with models that include prior year actual collections and project the balance of the current fiscal year based on

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prior year patterns. In general, we seek to match revenue sources with the economic and/ or demographic variables that most directly affect year-to-year changes in those revenues. Methods to project the revenues suggested in the budget vary depending upon the type of revenue examined. However, the most common method used is **Trend Analysis** and especially a year-to date approach. Examination of a variety of revenue sources on a monthly basis, have revealed consistent patterns in the monthly collections. Trends are identified, along with an analysis of whether or not the trend is likely to continue. These have been good indicators of revenue collections during the course of a year and help to set a basis for future projections. Forecasting variances are analyzed and used to improve forecasting in future periods. **Expert Judgment** is a projection methodology that relies upon individual department directors and financial managers to make projections for the revenues that affect their operations.

Revenue Estimates

The National Advisory Council on State and Local Budgeting prepared a set of recommended practices relating to governmental revenue estimates. Stated below are some excerpts from their recommended practices, along with Gallatin County's revenue estimate practices.

Projection of revenues and other resources is critical in order to understand the level of funding available for services and capital acquisition. Projections for future budget periods help determine the likelihood that services can be sustained and highlight future financial issues to be addressed. Preparing revenue projections also enhances our understanding of revenue sensitivity to changes in assumptions and to controllable factors such as changes to tax rates or fees.

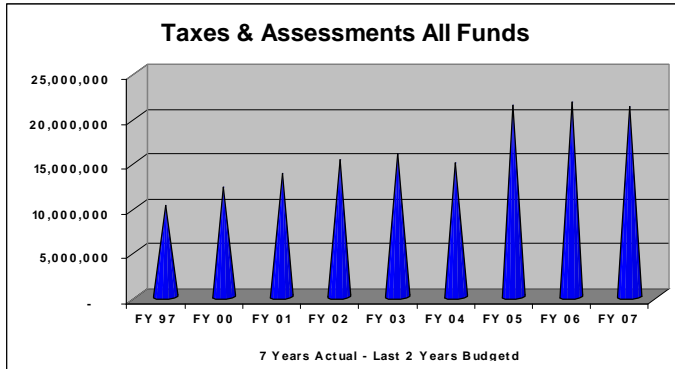
One of the key analytical tools, to assist in the development of revenue estimates, is the comprehensive five year financial forecast. This forecast considered key revenue and expenditure projection factors such as population, increases in the consumer price index (CPI) and other growth factors. The trending of these key factors and their affect on revenues and expenditures for the past ten years provided a historical basis for the five year financial forecast. The forecast was initially prepared in 2001, and is updated annually during the mid-year budget review process.

Overall, the County's practice is to budget revenues conservatively and to use as much information as possible in order to enhance the accuracy of revenue estimates. By identifying and utilizing as many revenue-related variables as possible in forecasting, we hope to minimize the risks of overstating or understating revenues that could arise from using only a few variables to forecast revenues. Our approach to forecasting, in general, is to apply a conservative philosophy that will produce our long-term goal of not overstating revenues. Most estimates involve two projections: an estimate for the amount to be collected in current year based on year-to-date activity; and an estimate for the increase or decrease in receipts anticipated for a future budget year. As part of the mid-year budget review process, the revenue assumptions included in the forecast are comprehensively reexamined based on actual results for 2004-05 as well as emerging trends at the mid-point of the year.

Individual revenue categories, their trends, and estimates follow. The revenue estimates described below represent 92% of total County Revenues.

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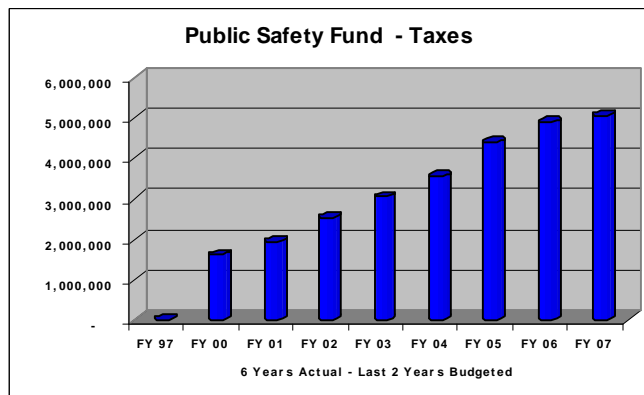
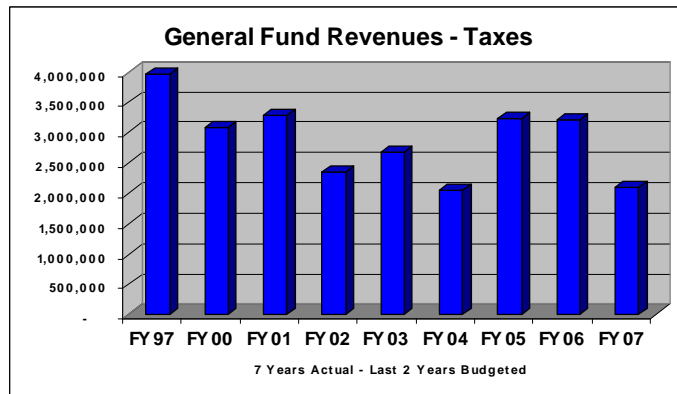
Key Revenue Estimates & Trends



Taxes and Assessments generate 42% of the County's Revenues. The graph on the left shows actual Taxes and Assessments for all County Funds over 7-year period, with estimates for the current year and budgeted revenues for FY 07. The increase in revenues comes from the effects of reappraisal, new construction, voted levy increases for Open Land Bond and new taxes authorized by legislature for Health

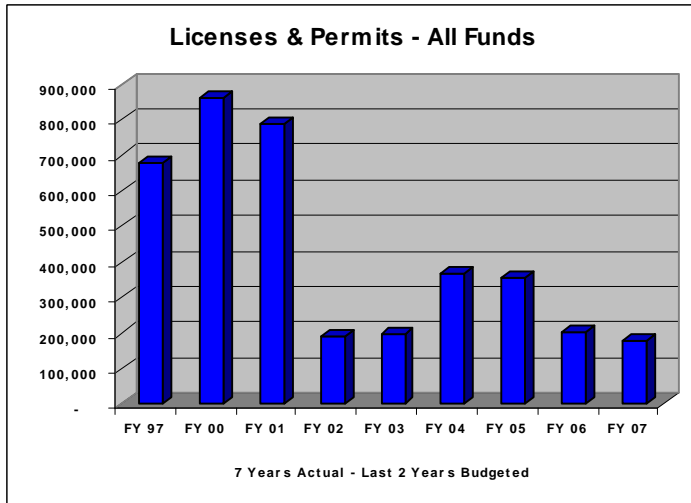
Insurance Premiums (4.27 Mills) and the Inflationary Mills (.954 mills for FY 07). The FY 07 Preliminary budget shows no increase in the valuation of a mill.

The graph on the right shows actual General Fund Taxes for a 7-year period, together with estimates for the current year and budgeted revenues for FY 07. The reduction in revenues in FY 00 began in FY 99 when the Public Safety Fund was created. This reduced the taxes generated by the General fund and created taxes in the Public Safety Fund. The Change did not increase the tax burden for taxpayers. The General Fund is now predominately the Administrative arm of the County. Including 8 elected offices, involving 9 Elected Officials and 7 Department Heads.



The Public Safety Fund (created in FY 99 from the General Fund) taxes are the single largest portion of taxes for County Government. The rapid growth of taxes comes from yearly decisions by the County Commission to emphasize Public Safety with a corresponding increase in taxes. The majority of the increase comes from the inflation mills and decreases in millage to other County Tax supported funds, including the elimination of the Employer Contribution Fund in FY 03.

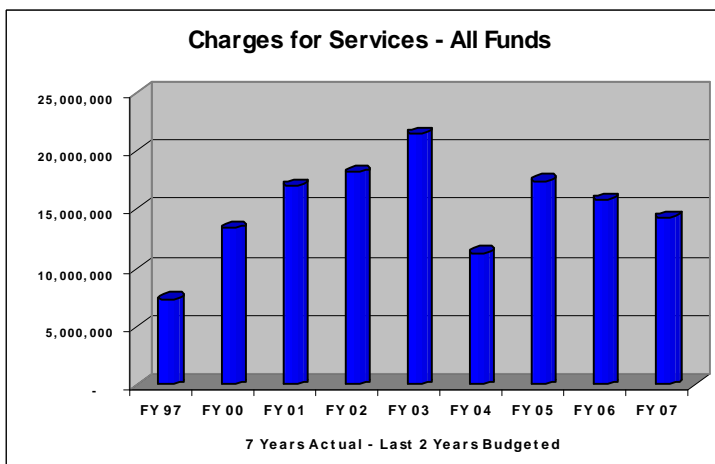
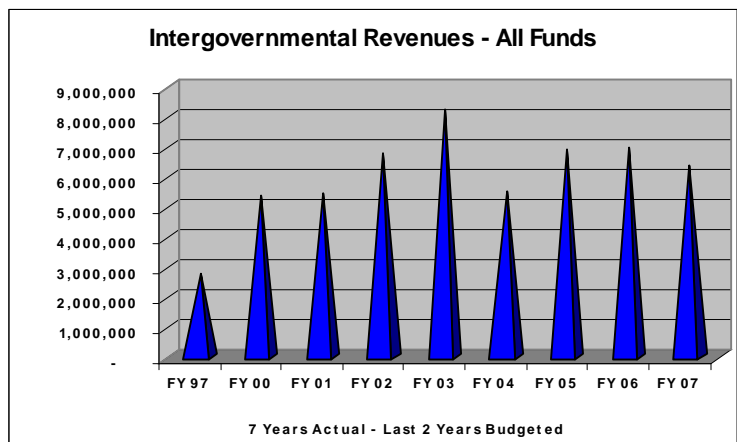
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Licenses & Permits for all County funds are shown on the left. The decline from FY 01 reflects the state Legislatures elimination of several revenue sources, (including Motor Vehicle Fees, Bank License taxes, Gambling Revenues and others), the revenue offset the cost of the state assuming Public Assistance and District Courts. The change also has the state transferring some of the revenue back as an Entitlement and is shown as Intergovernmental Revenues, which follow. This revenue source sees a slight

decrease from FY 06 with the elimination of revenues from delinquent motor vehicles and gambling tables.

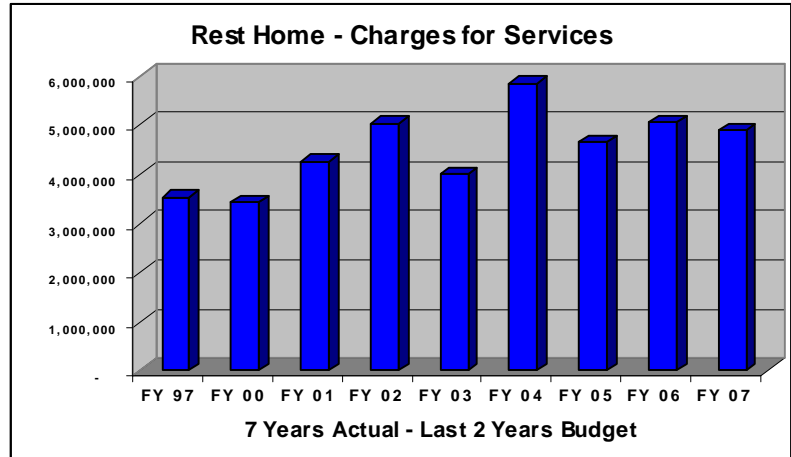
The increase in Intergovernmental Revenues (11% of revenues) in FY 01 through FY 07 is directly resulting from the implementation of the Big Bill (HB 124). The main component has Local Governments transferring Motor Vehicle Fees, Corporate License Tax, Gambling Fees and Revenues and others to the state. With the state giving Local Governments an entitlement to offset a portion of the loss. Since Gallatin County is a growing county with Motor Vehicle and gambling revenues increasing at an 8-10% annual rate and the Growth is at a 2-3% rate, so the County is not benefiting from the change.



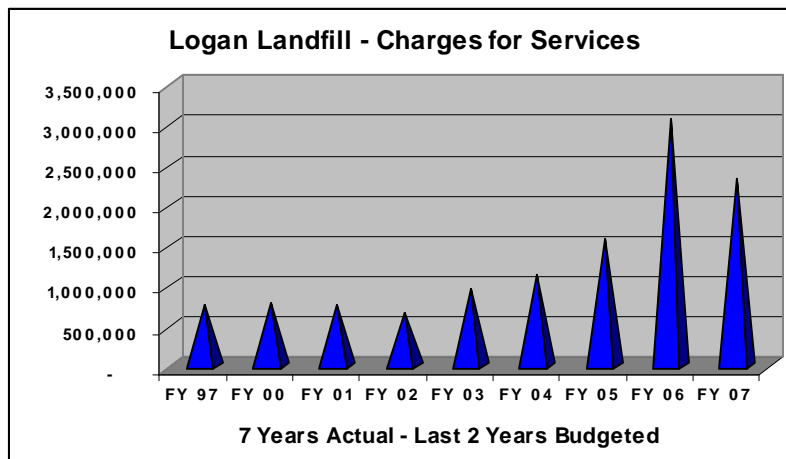
Charges for Services for all funds, represents 30% of Gallatin County revenues. The largest component of this source are charges generated by Enterprise activity. Specific graphs follow for the two largest components. Growth for the other fees is primarily based on estimated property activity including re-mortgaging, subdivision, zoning and property splits. These activities are growing at a 4% rate for the last two years.

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Rest home charges for services are shown by the graph on the right. These revenues increase based on increases in federal / state requirements and the corresponding per day cost rising. Revenues have increased from just over \$3 million in FY 97 to a projected \$3.5 million in FY 07. Another factor involved with Rest Home revenues comes from remodeling decreasing available beds in FY 99 with FY 06 being the first year the full capability and capacity will be realized. Revenues show a slight decrease from FY 06 to reflect actual occupancy for the 4th quarter of FY 06.



Charges for services at the Logan landfill show a dramatic decrease budgeted for FY 07. This is due to the



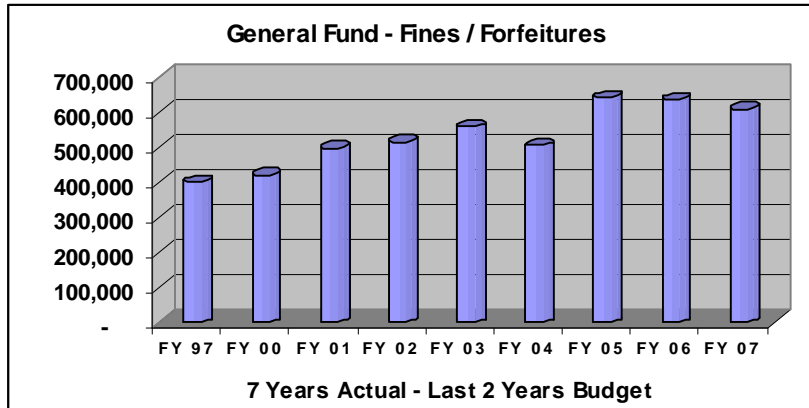
Landfill Board not preparing a budget. Conservative revenues are estimated based on projected expenses for FY 06.

It is planned, that the City of Bozeman will close it's landfill during FY 07 and increasing tonnage at the Landfill. We are projecting expenses to increase in FY 08 along with revenue to meet the increased demand.

It is anticipated that with the increase in tonnage fees will stay the same or possibly decrease for users within the Gallatin County Solid Waste District.

MAJOR REVENUE SOURCES

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Fines and Forfeitures – within the general fund, are tied to population increases in Gallatin County. A correlation has been found between citations, criminal acts, felonies and the Justice Court / District Court Fines, Forfeitures and bonds. The graph shows that Fines / Forfeitures have increased from \$400,000 in FY 1997 to \$607,000 in FY 2007, a 50% increase in 10 years. Another

factor affecting this source is a legislative change increasing small claims, which are heard by the Justice Courts, from \$3,500 to \$7,000.

Investment earnings reflect a combination of available cash balances together with the interest rate the county is able to obtain. As shown by the graph, investment earnings have been quite volatile, with sharp declines occurring in FY 03, which correspond to the interest rates in the national economy. Interest earnings in FY 07 are expected to be just under \$350,000.

